

Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15
STR-05 ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 SOE-02
OMB-01 DOE-11 XMB-04 OPIC-06 IO-14 /135 W
-----077274 052014Z /40

R 051756Z JAN 78

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 8670

INFO AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.O. 11652 NA

TAGS: EINV, EIND, GT

SUBJ: UPDATE OF INVESTMENT CLIMATE REPORT

REF: STATE 244738

THERE FOLLOWS STATEMENT ON INVESTMENT CLIMATE IN GUATEMALA
REQUESTED REFTEL.

1. THE CLIMATE FOR US PRIVATE INVESTMENT IN GUATEMALA IS
FAVORABLE. WITH FOREIGN EXCHANGE RESERVES AT AN ALL TIME HIGH
AND A STABLE CURRENCY, THE GOVERNMENT HAS NO NEED FOR CURRENCY
AND EXCHANGE CONTROLS. THE ECONOMY IN GUATEMALA GREW IN REAL
TERMS AT AN IMPRESSIVE RATE OF 8 PERCENT IN 1977 AND THE OUTLOOK
FOR 1978 IS A CONTINUATION OF THIS STRONG GROWTH.

PRESIDENTIAL ELECTIONS ARE SCHEDULED FOR MARCH 1978 WITH THE
NEW GOVERNMENT TAKING OVER IN JULY 1978. NO CHANGES IN THE
PRESENT TREATMENT OF FOREIGN INVESTMENT ARE EXPECTED.
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THE STABLE POLITICAL ENVIRONMENT AND HEALTHY ECONOMY HAVE
ATTRACTED A CONSIDERABLE AMOUNT OF FOREIGN INVESTMENT IN RECENT
YEARS, MOST NOTABLY IN MINERAL EXPLOITATION AND OIL EX-
PLORATION. THE LATTER CAN BE EXPECTED TO GROW IN 1978
WITH THE NEXT ANNOUNCEMENT BY THE GOVERNMENT THAT NEW
EXPLORATION AREAS WILL SOON BE OPENED TO BID.

2. THE GOVERNMENT HAS HAD AN EXCELLENT RECORD OF RESPECT FOR CONTRACTUAL OBLIGATIONS. THE ONLY EXCEPTION IN RECENT MEMORY WAS THE PASSAGE BY CONGRESS IN 1975 OF A UNILATERAL INCREASE IN THE EXPORT TAX ON BANANAS. THIS ACTION AFFECTED DEL MONTE. OTHERWISE, IN THE FEW CASES WHERE FOREIGN FIRMS HAVE PASSED TO PUBLIC CONTRAOL, THE GOVERNMENT HAS NEGOTIATED A MUTUALLY ACCEPTABLE AGREEMENT WITH THE INVESTOR.

3. THE EMERGENCE OF ECONOMIC NATIONALISM, EVIDENT ELSEWHERE IN LATIN AMERICA, IS A PHENOMENON THAT HAS NOT ESCAPED GUATEMALA. IN GUATEMALA, HOWEVER, SUCH A PHILOSOPHY HAS NOT BEEN FORMALIZED. RATHER IT HAS MEANT INFORMAL RESTRAINTS ON FOREIGN BANKS, OCCASIONAL OPPOSITION TO THE ESTABLISHMENT OF CERTAIN FOREIGN INDUSTRIES THAT ELEMENTS OF LOCAL INDUSTRY HAVE CONSIDERED TO BE POTENTIALLY HARMFUL TO THEIR OWN INTERESTS, (THIS DID NOT PREVENT, HOWEVER, THE ESTABLISHMENT IN 1976 OF A BRANCH OF A MAJOR US RETAILER AFTER MANY YEARS OF EFFORTS TO ENTER GUATEMALA. NOR HAVE THERE BEEN ANY OBJECTIONS TO THAT INVESTMENT SINCE THEN), AND LIMITATIONS ON THE USE OF THE OPIC INVESTMENT GUARANTEE PROGRAM. THE GOVERNMENT HAS NOT APPROVED AN OPIC INSURANCE POLICY SINCE 1973, BUT SAYS IT IS READY TO SHOULD THE APPLICATION BE FILED PROPERLY AND INVESTMENT MEET THE ESTABLISHED CRITERIA. IT SHOULD ALSO BE MENTIONED THAT THE GOVERNMENT HAS BEEN UNCLASSIFIED

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VERY SLOW AND DELIBERATE IN ESTABLISHING THE LEGAL FRAMEWORK FOR AND APPROVING INVESTMENTS IN MINERAL EXPLOITATION. IN GENERAL, HOWEVER, THE CONSERVATIVE NATURE OF THE GOVERNMENT HAS RESULTED IN ECONOMIC CONSIDERATIONS TAKING PRECEDENCE OVER DEMANDS OF ECONOMIC NATIONALISM WHEN DECIDING POLICY ON FOREIGN INVESTMENT.

4. AS A MEMBER OF THE CENTRAL AMERICAN COMMON MARKET, GUATEMALA HAS A RANGE OF INCENTIVES THAT ARE APPLICABLE TO ALL POTENTIAL INVESTORS. THESE ARE SPELLED OUT IN THE AGREEMENT ON FISCAL INCENTIVES FOR INDUSTRIAL DEVELOPMENT IN CENTRAL AMERICA RATIFIED BY GUATEMALA IN 1963, WHICH ALLOWS INCOME AND CUSTOMS TAX RELIEF FOR PERIODS OF UP TO TEN YEARS DEPENDING ON THE DEGREE OF REGIONAL VALUE ADDED. THE CENTRAL AMERICAN COMMON MARKET COUNTRIES, LESS HONDURAS, HAVE A JOINT EXTERNAL TARIFF WHICH HAS CREATED A NUMBER OF IMPORT SUBSTITUTION INDUSTRIES SERVING THE AREA. AS A RESULT OF THE BORDER DISPUTE BETWEEN HONDURAS AND EL SALVADOR, GUATEMALAN TRADE WITH HONDURAS IS COVERED BY A SEPARATE AGREEMENT. BOSTER

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THERE IS ALSO A LAW REGULATING DRAWBACK INDUSTRIES
(DECREE LAW 443 OF 1966). EFFORTS TO PASS A MORE FAVORABLE
LAW HAVE NOT BEEN SUCCESSFUL. SELECTED PRICE CONTROLS ARE
ALSO A FACTOR THAT PROSPECTIVE INVESTORS MUST CONSIDER. THE
GOVERNMENT HAS ATTEMPTED TO KEEP THE LID ON INFLATION
BY CONTROLLING THE PRICES OF CERTAIN PRODUCTS OF INDUSTRIAL
FIRMS (PRIMARILY BASIC FOODSTUFFS AND OTHER NECESSITIES);
FIRMS THAT RAISE PRICES OF THESE PRODUCTS WITHOUT GOVERNMENT
AUTHORIZATION RUN THE RISK OF LOSING THEIR INVESTMENT INCENTIVES.

5. AN ASPECT OF FAIR TRADE PRACTICE LEGISLATION SPECIFI-
CALLY APPLICABLE TO FOREIGN INVESTORS INVOLVES LIMITATIONS
ON THE EMPLOYMENT OF NON-CENTRAL AMERICANS; NEVERTHELESS,
THESE REGULATIONS HAVE BEEN APPLIED IN A FLEXIBLE MANNER.
FOREIGNERS RESIDING IN GUATEMALA MAY ENGAGE IN COMMERCE
AND INDUSTRY WITH THE SAME RIGHTS AND OBLIGATIONS AS PER-
TAIN TO GUATEMALANS. THE GUATEMALAN GOVERNMENT HAS NO
DEFINED POLICY TOWARDS FOREIGN FIRMS OBTAINING MAJORITY
CONTROL IN GUATEMALAN COMPANIES AND THERE IS NO REQUIREMENT
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FOR LOCAL PARTICIPATION IN SUCH COMPANIES.

6. INVESTMENT STATISTICS

A. US DIRECT INVESMENT #

TOTAL \$260 MILLION

MINING AND SMELTING \$80 MILLION

PETROLEUM \$70 MILLION

MANUFACTURING \$70 MILLION

OTHER INDUSTRIES \$40 MILLION

B. DIRECT INVESTMENT BY ALL COUNTRIES#

TOTAL \$455 MILLION

CANADA \$144 MILLION

GREAT BRITAIN \$31 MILLION

WEST GERMANY \$10 MILLION

OTHER \$10 MILLION

SOURCE: EMBASSY ESTIMATES.

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Status: NATIVE
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TAGS: EINV, EIND, GT
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